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# What's New

**STANDARD DEDUCTION**—For 2005, the standard deduction is increased to \$1,910.

**RETIREMENT INCOME**—For 2005, the retirement exclusion is increased to \$41,110. For future years, the exclusion will remain at the current level, \$41,110.

**FOREIGN INCOME TAX DEDUCTION**—KRS 141.010(11) is amended to eliminate the foreign income tax deduction effective for taxable years beginning after December 31, 2004. This provision is permanent, subject to future actions by the General Assembly.

**EXTENSIONS**—You may now use federal Form 4868 to obtain an automatic six-month extension. If you file Form 4868, you are not required to file a separate extension request for Kentucky (Form 40A102, Application for Extension of Time to File). Attach Form 4868 to your Kentucky return when filed.

**INTERNAL REVENUE CODE**—Kentucky's income tax law is based on the Internal Revenue Code in effect December 31, 2004, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2004, that would otherwise terminate, and as modified by KRS 141.0101, except that for property placed in service after September 10, 2001, only the depreciation and expense deductions allowed under Sections 168 and 179 of the Internal Revenue Code in effect on December 31, 2001, exclusive of any amendments made subsequent to that date, shall be allowed, and including the provisions of the Military Family Tax Relief Act of 2003, Pub. L. No. 108-121, effective on the dates specified in that Act.

**RATE REDUCTION**—The tax rate for income between \$8,000 and \$75,000 is reduced to 5.8 percent, with income over \$75,000 continuing to be taxed at 6 percent.

**FAMILY SIZE TAX CREDIT**—The family size tax credit replaces the low income credit. This credit provides benefit to individuals and families at incomes up to 133 percent of the threshold amount. The 2005 threshold amount is \$9,570 for a family size of one, \$12,830 for a family of two, \$16,090 for a family of three and \$19,350 for a family of four or more.

**PHASE II TOBACCO PAYMENTS**—State funds paid out as an addition to or replacement of Phase II tobacco payments are exempt from Kentucky income tax.

**TOBACCO QUOTA BUYOUT**—Proceeds from a national tobacco buyout are exempt from Kentucky income tax.

**KENTUCKY EDUCATION TUITION TAX CREDIT**—A Kentucky credit is allowed equal to 25 percent of the eligible amount allowed at the federal level for education credits. The credit applies only to undergraduate studies, phases out for higher incomes and applies to most higher education opportunities within Kentucky.

**NET OPERATING LOSSES**—For 2005 and future years, the carryback of net operating losses to prior years will no longer be allowed. Net operating losses will be available for carryforward only.

**SCHEDULE TC**—This schedule has been eliminated. The credits are now deductible on the Form 740 or 740-NP, Section A, Business Incentive and Other Tax Credits.

**EXPANSION OF CORPORATION INCOME TAX**—The corporation income tax base is expanded to include all limited liability entities (limited liability partnerships, limited partnerships, limited liability companies, including single member LLCs, and S corporations). General partnerships and sole proprietorships are not subject to the expanded corporation income tax. Publicly traded partnerships and their limited partnership and limited liability company affiliates will be taxed as general partnerships. There is no pass-through of income, loss or credit to non-individual owners of pass-through entities (PTEs) subject to corporation income tax. Individual partners, members or shareholders of PTEs subject to corporation income tax will receive a limited credit for tax paid at the entity level.

**Nonrefundable Kentucky Corporation Tax Credit (KRS 141.420(3))**—Partners, members and shareholders of PTEs taxed as corporations are entitled to a nonrefundable credit under KRS 141.420(3) for the tax paid by the PTE under KRS 141.040. The credit is limited to the tax savings if the income taxed on the corporation's return is omitted on the individual's return, or the proportionate share of tax paid by the entity less the required minimum tax of \$175, whichever is less. The limitation is calculated separately for each PTE. If the PTE passes through a loss, the individual tax limitation is zero.

**Refundable Kentucky Corporation Tax Credit (KRS 141.420(3)(c))**—For taxable years beginning after December 31, 2004, and before January 1, 2007, the portion of credit that represents 1 percent of the entity's taxable income in excess of \$216,600 shall be refundable. The PTE shall compute and report the amount of nonrefundable and refundable credit available to the partners, members or shareholders.

**HISTORIC PRESERVATION RESTORATION CREDIT**—Allows a credit against corporation or individual income taxes for a portion of the cost of restoring a qualified residential and commercial structure listed on the National Registry of Historic Places. The credit is equal to 30 percent of the rehabilitation expenses, in the case of owner-occupied residential property, and 20 percent of the rehabilitation expenses, in the case of all other property. The total credit available is capped at \$3 million annually, with each individual owner-occupied property receiving no more than \$60,000. More information is available at [www.heritage.ky.gov](http://www.heritage.ky.gov) or by calling (502) 564-7005.

**VOLUNTARY ENVIRONMENTAL REMEDIATION CREDIT (BROWNFIELDS)**—Taxpayers who agree to clean up or develop an existing abandoned brownfield area may qualify for a credit against corporation or individual income taxes in a maximum amount of \$150,000. Contact the Environmental and Public Protection Cabinet at (502) 564-3350 for additional information.

**BIODIESEL CREDIT**—Credits may be taken against corporation or individual income taxes for producing or blending biodiesel fuels of up to \$1 per gallon produced or blended, limited to a maximum statewide credit of \$1.5 million. The credit may not be carried forward. Contact the Department of Revenue, Corporation Tax Section at (502) 564-8139 for information.

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